

SOCIAL SECURITY INVESTMENT FUND ACT OF 1999
Rep. Roscoe G. BARTLETT (R-MD) Rep. Edward J. MARKEY (D-MA)
Rep. Earl POMEROY (D-ND), Rep. John DUNCAN, Rep. Robert MATSUI

H.R. 990 - BILL SUMMARY

This bill, introduced March 6, 1999, gives legislative form to the need to provide workers with a reasonable return on their Social Security payroll taxes while maintaining the guaranteed benefit foundation of the current Social Security system. It would authorize the investment of a portion of the Social Security surplus in the private sector - a diversification strategy used by nearly every other public pension fund in America. It would restrict this discretion, however, to a very conservative form of investment called "index funds." Management would be passive, not active, and the return on investment would mirror the return of the market as a whole, not individual stocks. In this way, the system would benefit from a higher rate-of-return while protecting the system against the shock of market downturns.

The main features include:

- An addition of 6 years of solvency to the Social Security System without resort to benefit cuts, payroll tax increases or government borrowing.
- The locking-up of Social Security surpluses for Social Security only.
- Assumption by the government of the risks of ups and downs in the market so that retirement benefits remain guaranteed.

The structure of the investment program is as follows:

1. Independence. We establish the Investment Board as an independent agency. Its activity is self-funded, and its authorization explicitly forbids muddying the pursuit of its fiduciary duty with social, political or religious objectives.
2. Limited Risk. The amount to be invested in stocks would remain far less than the amounts already invested in the market by public pension funds - a small fraction of the market as a whole.
3. Professionalism. The Board hires fund managers already engaged in managing money in the financial markets for private investors.
4. Conservatism. Each fund manager invests only in equity index funds that mirror the market broadly (e.g., the Wilshire 5000) so that the government is at no time engaged in the business of picking winners and losers.
5. Diversification. The total amount allocated to each fund manager is limited so that no one controls a disproportionate share of the overall activity or of any single company.
6. Neutrality. In proxy battles, the fund managers would not decide how to vote the shares. The shares would instead be voted automatically through "mirror voting", where the fund's votes are cast in the same proportion as the votes cast by all the other shareholders.

For information contact Tom Jones (Bartlett 202-225-2721) or David Moulton (Markey 202-225-2836)

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H.R. 990 - Section-by-Section Analysis

Section 1. Short Title.

The Social Security Investment Fund Act of 1999

Section 2. Establishment of the Board and the Executive Director

Subsection (a). Amends Title VII of the Social Security Act to add Section 713, as follows:

Section 713 (a). Establishes the Social Security Investment Board as an independent agency, made up of 5 members with staggered 10 year terms. They are appointed by the President with Senate confirmation, but one is recommended by the House Speaker and one is recommended by the Senate Majority leader.

The Board develops policies to be carried out by the Executive Director. The Board is prohibited, however, from directing any investment in a specific stock. The Board's annual budget is submitted to the President and Congress and included without change as a separate item in the budget.

Section 713 (b) The Executive Director is chosen by the Board and oversees the investment of the Social Security Investment Fund ("SSIF") in index funds by qualified professional asset managers chosen on a competitive basis (see below.)

Section 3. Social Security Investment Program

Subsection (a). Amends Title II of the Social Security Act by adding Part B - Social Security Investment Program. Part B would include the following new sections:

Section 251(a). In General. Establishes the Social Security Investment Fund (SSIF) on the books of the Treasury of the United States, available for investment, transfers, and the payment of administration of the SSIF in accordance with this section.

Section 251(b). Balances. Provides for the gradual phase-in of the SSIF between 2001 and 2015. The amounts prescribed are intended to result in an increase in Social Security solvency of 6 years. Once 6-year solvency is reached, it is maintained at that level, based on determinations of the Managing Trustee of the Social Security system (the Secretary of the Treasury) and transfers out of the SSIF. The independence of the SSIF regarding investment decisions is assured in part by funding the administration of the SSIF out of SSIF income, not annual appropriations.

Section 251(c). Should it ever become an issue, payment of the administrative expenses of the SSIF shall at all times be secondary to the payment of benefits out of the Social Security system itself.

Section 252 (a). Authorizes the Social Security Investment Board to establish a Common Stock Fund.

Section 252 (b) Specifies that the Common Stock Index Fund shall be made up of one or more common stock index funds broadly representative of all publicly held companies traded on the US equities markets. The portfolios are designed to replicate the performance of these indices. Prohibits including or excluding any company for political, social or religious considerations. Provides that voting rights in the shares are exercised by the qualified investment asset managers (not by the Board or its Executive Director.) (See Section 255 regarding "mirror-voting.")

Section 252 (c). Authorizes the Board to hire through competitive bidding Qualified Professional Asset Managers ("Managers"). The Managers must already be engaged in the business of investing assets for private clients above specified amounts, and meet minimum capital requirements.

Section 253. Requires annual audits and report to the Board.

Section 254 (a). Makes the fiduciary responsibilities that apply to the management of the Thrift Savings Fund for federal employees applicable to the management of the SSIF for Social Security beneficiaries. In particular, this requires that the SSIF be managed "solely in the interest of" and for "the exclusive purpose of" the beneficiaries. Excludes investing for social, political, religious or other reasons not relevant to fiduciary duties.

Section 254 (b). Provides the same investigative authority for any breaches of fiduciary duty as is provided under the employee Retirement Income Security Act (ERISA.)

Section 254 (c). Provides that any provision that purports to relieve management from its fiduciary responsibilities is void. Also provides for liability insurance.

Section 255. Diversification Requirements. Requires the Board to prescribe policies to ensure that

- no fewer than three Managers shall be engaged in the management of SSIF assets;
- no Manager shall hold more than one percent of any single company;
- Managers can vote shares, but only in the same proportion as all other shareholders exercise their votes ("mirror-voting.")

For more information contact David Moulton (Rep. Markey 202 225 2836), Thomas Jones (Rep. Bartlett 202 225 2721) or Karen Fredrickson (Rep. Pomeroy 202 225 2611.)

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